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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 000328

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SUBJECT: POWERFUL FINANCE MINISTER AL-SALAMI ON THE CHOPPING BLOCK?

Classified By: Ambassador Thomas C. Krajeski for reasons 1.5 b and d.

¶1. (C) Summary. Time may be up for Finance Minister al-Salami. Rumors are spreading throughout Sanaa that President Saleh will remove the Minister from office in an upcoming cabinet shuffle. A number of small but significant political losses for Salami appear to give teeth to this rumor. Salami, who has long been unpopular with the general public, has recently become the target of personal attacks from the press and other ROYG officials. Reform minded ROYG officials, including Hafiz al-Mo'ayed at the Agricultural Bank, seem willing to take him on, perhaps because they sense Salami no longer has the support of President Saleh. There have been prior rumors of a cabinet shuffle that have not come to fruition, and many ROYG officials have been counted out, only to be rehabilitated. Nevertheless, there are significant indicators that Salami's power base, which rests on his control of the ROYG purse strings, has become too large for President Saleh's taste. End Summary.

Saleh's Support for Salami Waning

¶2. (C) Minister of Finance Alawi Saleh al-Salami has dominated the ROYG through control of its purse strings for nearly two decades. He has held the positions of Finance Minister or Central Bank of Yemen (CBY) Governor since 1986, and has had the added title of Deputy Prime Minister since ¶2001. In recent days, however, Salami has suffered some political setbacks, and rumors abound that he will soon be removed from office, with most predictions pointing to a cabinet reshuffle this spring.

¶3. (C) In early February, President Saleh reached into the MOF and demoted Salami's chief of staff and right-hand-man, Saleh Sha'aban. According to former MP Saadaldeen Talib, Sha'aban now retains only the formal title of Deputy Minister for Planning, however, no such planning office exists on the MOF's organizational chart. When Salami recently tried to remove some top officials in the Customs Authority, Saleh prevented him from doing so. President Saleh also recently removed Mohammed Atieg (al-Salami), Salami's live-in son-in-law. Atieg who headed IT projects at the MOF and CBY was renowned for demanding large personal commissions from bidders on IT projects. At MOF, Atieg was responsible for the Accounting Financial Management Information System (AFMIS), a donor-funded project to bring transparency to the budgeting process. AFMIS has been plagued by delays and cost overruns, and IMF and World Bank officials complain of corruption and mismanagement.

¶4. (C) The opposition and independent press has begun publishing increasingly bold articles about corruption at the Finance Ministry. On December 27 "al-Shum'a" featured a picture of Salami and MOF colleagues on the back page and cited "financial and administrative corruption." The recently demoted Sha'aban is reported to have arranged a number of large-scale corrupt transactions while under Salami's protection.

Reformer Mo'ayed a New Favorite?

¶5. (C) Salami is locked in another high-profile power struggle with Agricultural Bank Chairman Hafiz al-Mo'ayed. Salami removed Mo'ayed as head of the Customs Authority, where he was known as a reformer. Salami placed Mo'ayed at the failing Agricultural Bank. However, instead of sinking with the bank, Mo'ayed has managed to improve the bank's fortunes. According to the local press, the ROYG recently increased the bank's capital, allowing it to expand its business from narrow agricultural investments to broader development loans. The bank was renamed the Rural Development Bank, and given increased independence from the MOF.

¶6. (C) Many believe that Mo'ayad's rise has infuriated Salami, who accused him of embezzling 400 million Yemeni Riyals (2.1 million dollars) from the Yemeni Soccer Federation. (Note: Mo'ayad served as Vice Chairman in the Federation with Mohammed Abdulleh al-Qadi, a notoriously incompetent relative of the President. Qadi was head of the government-owned Yemen Drug Company--now bankrupt, and is

currently an MP. The Federation's accounts are closed, and there is no clear record of what happened to the funds. End Note). Some ROYG insiders, however, now believe the President is backing Mo'ayad, who is related to him by marriage, and there are rumors that he will be the next head of the CBY. On February 13, a confident Mo'ayad told a USAID officer, "I will win" against Salami. There are additional rumors that Saleh may pick Mo'ayad to head the CBY, which at present is largely directed by the powerful Minister of Finance.

¶7. (C) According to an official at the Ministry of Civil Service, Salami enraged the President with a recent budget proposal. MOF planned to increase the civil service by a total of 4500 positions, 2500 of which were to be created in the MOF. Many of these jobs were slotted for Salami's family members and allies. (Note: Salami's personal corruption is common knowledge in Yemen. His house alone is worth millions of dollars. End note.)

End of an Era at Finance?

¶8. (C) The MOF wields tremendous power over other ministries, as well as regional and local government, through direct appointments and allocation (or non-allocation) of funds. Under Salami, the MOF has become increasingly bold. MOF official Ibrahim al-Nahari shared that the Minister seeks to swallow up some key functions of other ministries, including insurance and trade. According to Omar Bazara, Assistant Sub-Governor at the CBY, the MOF pressures the CBY to handle government payroll in place of commercials banks, and it is widely assumed that Salami maintains a loyal cadre at MOF who pocket false or double paychecks. Mo'ayad says he has been fighting to process teachers' paychecks through the Agricultural Bank to free up money for investment, but Salami has refused. Salami is also suspected of falsifying ROYG budget data for international consumption by delaying payment to ministries and government contracts. This improves the ROYG's balance sheets on paper, but has a negative ripple effect on Yemen's investment climate.

¶9. (C) Many reformers in Yemen view Salami as a nexus of corruption and the obstacle to economic reform. Lamis al-Iryani, Communications Director for the Social Fund For Development (a quasi-governmental development body created by the World Bank), said that her office recently completed a modernization program at the Ministry of Social Affairs. The MSA recorded all welfare recipients on a database, thereby avoiding "ghost cases" and other forms of petty corruption. When the SFD attempted to expand these accountability measures to include external audits, transparent budgeting, and processing of employee payroll through a commercial bank, the Salami-appointed SFD Financial Manager blocked these additional reforms. MOF appointees have raised similar obstacles to decentralization efforts, refusing to transfer funds to locally elected councils and thwarting local initiatives.

¶10. (C) Comment. Salami began as one of the few Yemeni technocrats to build his career from within the government, rather than depending on tribal ties. He gained credibility with the IMF and World Bank in the late 90's for implementing policies of fiscal restraint. During the years of financial reform that followed Yemen's civil war, he managed to stabilize the currency and control government spending. Rumors about cabinet reshuffles are common and should be taken with a grain of salt, but Saleh's recent moves may indicate that Salami's star is fading. The Yemeni public is becoming tired of large-scale corruption at the MOF, Parliament is demanding reforms, and the President appears ready to crack down on Salami's mini-empire of patronage and nepotism.

¶11. (C) Comment continued. The depth and permanence of this Saleh-Salami spat is uncertain. Salami may have grown too powerful for Saleh's taste, and may have made the mistake of cutting the President out of a lucrative deal. Saleh may find Salami a convenient scapegoat and consider sacrificing him to appease growing donor dissatisfaction with MOF, particularly the World Bank. One source said that Salami's fate depends on the outcome of Bank President Wolfensohn's February 13 - 17 visit to Sanaa. No matter what Saleh's motives, Salami's departure would be a welcome opportunity for those working to expand economic reforms. Salami's MOF is widely viewed as an impediment to donor efforts to support decentralization, fight corruption and encourage investment. Of course, if Saleh were to dismiss Salami only to replace him with a relative or tribal loyalist, the result could be more of the same. There is momentum building for change and Saleh, in replacing Salami, would have an opportunity to weigh in on the side of reform.

Krajeski